

Message Text

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PAGE 01 KUWAIT 01310 180846Z

12

ACTION NEA-10

INFO OCT-01 ISO-00 EUR-12 CIAE-00 DODE-00 PM-04 H-02

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FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 4925

INFO USDOC WASHDC

AMEMBASSY ABU DHABI

AMEMBASSY CAIRO

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY ROME

AMEMBASSY TEHRAN

USINT BAGHDAD

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ROME FOR RCAA

E.O. 11652: N/A

TAGS: EAIR KU

SUBJECT: KAC CHAIRMAN UNDER ATTACK OVER POSSIBLE BOEING BRIBE

BEGIN UNCLASSIFIED

1. DURING NATIONAL ASSEMBLY DEBATE MARCH 16 ON KUWAIT AIRWAYS
FY 77 BUDGET DEPUTY KHALED KHALAF RAISED QUESTION OF POSSIBLE
BOEING BRIBES TO AGENTS CONNECTED WITH PURCHASE OVER PAST FEW
YEARS OF KAC'S FLEET WHICH BY NOW CONSISTS OF SEVEN 707S AND
ONE 737. KHALAF REFERRED TO PRESS REPORTS THAT BOEING HAD PAID
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PAGE 02 KUWAIT 01310 180846Z

OVER \$70 MILLION IN COMMISSIONS AND KICKBACKS TO FOREIGN AGENTS.

LOCAL PRESS HAS NOTED THAT ARAB AIR FLEETS, INCLUDING KAC'S, MADE UP PREDOMINANTLY OF BOEING AIRCRAFT AND THAT BOEING AGENT IN KUWAIT IS FROM PROMINENT FAMILY ONE OF WHOSE MEMBERS, FAISAL FLEIJ, IS CHAIRMAN AND MANAGING DIRECTOR OF KUWAIT AIRWAYS CORPORATION.

2. KHALAF SAID THAT ON PURCHASE OF 707S A COMMISSION AGENT HAD ORIGINALLY BEEN NEGOTIATED BUT THAT KAC LATER REJECTED WORKING THROUGH AN AGENT. HOWEVER, SINCE KAC EVENTUALLY DID BUY THE PLANES, KHALAF ASKED, "WHERE DID THE COMMISSION GO AND WHO TOOK IT?" KHALAF DID NOT ACTUALLY CHARGE FLEIJ WITH TAKING A BRIBE; RATHER HE SAID, "I HOPE THATNO BRIBES HAVE BEEN PAID TO ANY ONE OF OUR BROTHERS IN KUWAIT," AND HE DEMANDED A FURTHER EXPLANATION FROM FLEIJ ON THE SUBJECT. KHALAF ALSO MENTIONED POSSIBILITIES OF KUWAIT BEING SHOWN RESULTS OF POSSIBLE INVESTIGATIONS OF US CONGRESSIONAL COMMITTEES TO CLEAR UP MATTER.

3. FLEIJ, IN WHAT PRESS DESCRIBED AS "SPIRITED" REPLY, NOTED THAT THE GOK STATE ACCOUNTING BUREAU WAS AWARE OF THE STATUS OF COMMISSION NEGOTIATIONS AND RESULTS AND THAT DEPUTY KHALAF COULD REVIEW THESE RESULTS HIMSELF. "I CHALLENGE ANYONE TO PRODUCE ANY PROOF SHOWING IMPROPRIETY IN THE MATTER," FLEIJ SAID. HE WENT ON TO EXPRESS THE HOPE THAT THE ATTACKS WOULD NOT SPOIL KAC'S SUCCESSFUL REPUTATION. HE DESCRIBED THE COMPANY AS A LEADING ARAB CARRIER, A "GIANT" (BY KUWAITI STANDARDS) COMPANY AND ONE WITH A WORLD WIDE REPUTATION. THESE REMARKS, HOWEVER, SERVED TO PROVOKE FURTHER CRITICISM FROM OTHER DEPUTIES ABOUT KAC'S PROFIT PICTURE, KUWAITIZATION, ETC.

4. KHALAF'S RAISING OF THE BRIBE ISSUE FOLLOWED SEVERAL DAYS OF INTENSIVE PARLIAMENTARY CRITICISM OF KAC IN GENERAL AND OF FLEIJ IN PARTICULAR. THERE HAVE BEEN CHARGES OF NEPOTISM AND FAVORATISM BY FLEIJ IN HIRING PRACTICES, LACK OF PROGRESS ON KUWAITIZATION, POOR CABIN SERVICES, IRREGULARITIES IN CONTRACTS FOR FOOD SUPPLY AND ADVERTISING, AND FLEIJ'S PREOCCUPATION WITH OUTSIDE BUSINESS INTERESTS. PRESS REPORTS INDICATE THAT, ACCORDING TO SOME DEPUTIES AT LEAST, KAC BUDGET WILL NOT BE PASSED UNTIL MAJOR ADMINISTRATIVE CHANGES (I.E. FIRING OF FLEIJ) ARE MADE.

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PAGE 03 KUWAIT 01310 180846Z

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5. COMMENT: PUBLICITY OF BOEING BRIBES COULD NOT HAVE COME AT WORSE TIME FOR KAC MANAGEMENT WHICH AS NOTED ABOVE ALREADY HAS ITS HANDS FULL DEFENDING ITSELF FROM A VARIETY OF CHARGES WHICH HAVE SURFACED AS PART OF ANNUAL BUDGET EXERCISE. MOREOVER, GOK WITH FULL PLATE OF SENSITIVE ISSUES SCHEDULED TO COME BEFORE PARLIAMENT CANNOT BE HAPPY WITH POSSIBLE CONTRETEMPS OVER KAC.

COMPANY IS NEGOTIATING WIDEBODY PURCHASE WITH THREE MAJOR US AIRFRAME BUILDERS, AND SOME OBSERVERS BELIEVE THAT BOEING HAS INSIDE TRACK GIVEN DESIRE TO MAINTAIN COMPATABILITY OF FLEET. (SEPTTEL FOLLOWS ON GENERAL KAC DEVELOPMENTS.)

6. ON BACKGROUND TO 707 PURCHASE DEPARTMENT WILL RECALL THAT INDEED THERE WAS RELATIVELY MESSY SITUATION OVER BOEING'S AGENT HERE. MATTER WENT TO COURT IN US (WASHINGTON FEDERAL DISTRICT COURT), BUT AT ONE POINT AGENT WITHDREW AS FAR AS WE KNEW IN FAVOR OF KAC. WHILE NO ONE EVER LEVELLED CHARGE AGAINST FLEIJ, THERE HAS BEEN SINCE THEN AN UNSTATED ASSUMPTION THAT FLEIJ BENEFITED FINANCIALLY FROM WHAT HAPPENED AT THE TIME. THESE DEVELOPMENTS OCCURRED SEVERAL YEARS AGO AT A TIME AND IN AN ENVIRONMENT WHEN THE INDIVIDUALS INVOLVED NEVER THOUGHT THAT YEARS LATER THEY MIGHT BECOME THE SUBJECT OF THE KIND OF DEBATE THAT TOOK PLACE THE OTHER DAY IN THE KUWAIT NATIONAL ASSEMBLY, LET ALONE THE US CONGRESS.

7. THE MATTER MAY, IN TYPICAL KUWAITI FASHION, QUIET DOWN AND GO AWAY. BUT WE THINK IT BEARS WATCHING SINCE (A) IT COULD LEAD TO UNSAVORY REVELATIONS INVOLVING BOEING; (B) IT COULD AFFECT THE PROGRESS OR LACK THEREOF OF KAC'S DECISION TO BUY WIDE-BODIED AIRCRAFT (C) IT COULD RESULT IN MANAGEMENT CHANGES AT KAC WHICH COULD HAVE RAMIFICATIONS ON LOCAL AND REGIONAL CIVIL AIR DEVELOPMENTS AND (D) AS NOTED ABOVE IT MIGHT DEVELOP INTO A LOCAL POLITICAL CONFRONTATION BETWEEN KAC/GOK AND NATIONAL ASSEMBLY.

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